

A STUDY ON DEMONETIZATION AND ITS IMPACT ON CASHLESS TRANSACTIONS

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ABSTRACT

For every economy, money is considered as the life blood. Money emerged when the unlimited wants of humans were not met through the barter system. Money forestalls “the double coincidence of wants”. Demonetization strips a currency unit of its status as a legal tender. On 8th November, 2016 around 8 p.m., the Prime Minister of India brought the demonetization with the statement that with effect from 9th November 2016 Rs.500 and Rs.1000 rupees’ currency notes are invalid except in some essential services for the time being. The demonetization has several aims of eradicating black money, removing counterfeit notes, stopping money laundry and so on. Apart from these direct and primary aims it focuses on encouraging cashless transactions as well. Cashless transaction uses credit and debit cards, online payment gateways and digital wallets for financial transactions. This conceptual paper attempts to study the demonetization process in India and its impact on cashless transactions.

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INTRODUCTION

The demonetization of Rs.500 and Rs.1000 currency notes by the Prime minister of India, with effect from 9th November 2016 has primary aim of curbing black money. Anti-money laundering, eradicating counterfeit notes and so on. Apart from these primary aims the demonetization process boosts up using e-transactions among Indians (Saini, B.M, 2015). “In popular parlance, the unofficial economy goes by the name of black money and the official of white money. Black and White are also variously substituted by number two and number one, unaccounted and accounted, unreported and reported, unrecorded and recorded and so on” – Prof. C. Sandesara. The demonetisation decision boosted cashless transactions at a larger rate. More than making the transactions convenient, it hindrances

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the spread of unaccounted money. The vision 2018 – Payment and settlement by RBI in June 2016 encourages the cashless payments and aims to achieve ‘less – cash’ society. “The broad contours of vision – 2018 revolve around the five Cs – coverage, Convenience, Confidence, Coverage and cost. To achieve these, vision – 2018 will focus on four strategic initiatives such as responsible regulations, robust infrastructure, effective supervision and customer centricity” – RBI.

1.1 Objectives of the Study

1. To study the history of demonetization across the world and in India.
2. To study the impact of demonetization on cash less transactions.

RESEARCH METHODOLOGY

This paper is purely conceptual so no primary data is collected by means of questionnaire or interview schedule. The secondary data for this paper are collected from Research papers, government and non-government websites, books and so on.

2.1 Review of Literature

Ashish Das, and Rakhi Agarwal, (2010) studied the cashless payment system in India. They suggested that the cash payment is an expensive proposition to the government and so the nation must step towards the cashless payment system which reduced the track transactions, currency management cost, eliminates tax avoidance, fraud etc. Moreover, it widens and encourages financial inclusion and integrate the parallel economy to the main steam.

Alvares, Clifford (2009) reported the problems pertinent to the fake currency in India. It is explained in the report that many fake notes are going undetected and the battle against the fake note is harder.

Annamalai, S. and Muthu R. Iyakkuvan (2008) studied the future of plastic money in retail transaction. The growth of the debit and credit cards in retail transactions were projected by them in their study. The popularity leading growth factors, the obstacles faced by the banks, future and scope of the plastic money were explained in their study.

Jain, P.M (2006) studied about the e-payments and e-banking. With the help of technological advancement, rapid payment options and other features, there will be an optimal use of funds for banks, other financial institutions, and business houses and so on. He also elaborated the importance and need for e-payments and modes of e-payments and communication networks

HISTORY OF DEMONETIZATION ACROSS THE WORLD

Demonetization is not a peculiar concept to India and to the world. Due to several reasons, various countries have put the ban on circulation of currency notes, nullifying the value of certain currency notes in many scenarios. Demonetization is done in many countries in order to bring down the hyperinflation, to eradicate black money and counterfeit currency and to bring stability in the economy. One of the best and well known example for demonetization is adoption of Euro by the European Union countries. The exchange rates for various countries’ currency were fixed to facilitate the switch over of

different countries' currencies to Euro. When the Euro was brought into practice the old currencies of countries were demonetized. In order to facilitate the smooth transition to Euro the demonetized currencies remained convertible into Euro. Some of the crucial examples of demonetization are as follows:

3.1 Soviet Union

Under the leadership of Mikhail Gorbachev, the country, by means of demonetization, withdrew the 50 and 100 Ruble notes from circulation on January 1991, in order to increase the value of their currency and to eradicate black money from the country. The withdrawn notes accounts to one third of the total money in circulation.

3.2 Myanmar

Demonetization is a very much familiar concept in Myanmar. Kyat, the currency of Myanmar was brought into practise in 1952 after demonetizing the Indian rupee at par along with their old currency. In May of 1964, the 50 and 100 kyat notes were demonetized, and in 1985 the 20, 50, and 100 kyat notes were demonetized. The latest demonetization happened in 1987, when the 25, 35, and 75 kyat notes were demonetized by their government, which makes the three quarters of the country's currency invalid.

3.3 Australia

In order to eradicate the rapid spreading of counterfeit notes, in 1996, the Reserve Bank of Australia brought the world's first counterfeit-resistant polymer (plastic) currency notes. Australia is the world's first country that brought polymer notes into practise after the Government made the paper based notes non tender.

3.4 Ghana

The Demonetization in Ghana had adverse effects. In 1982, in order to remove tax avoidance and corruption, the 50 Cedi currency notes were demonetized. This demonetization made people to go for physical assets and foreign currency. The people of Ghana lost hopes on banking system and a fresh black market for currency started to function.

3.5 Nigeria

In 1984, the Government under the leadership of Muhammadu Buhari issued new color notes such a way that the old notes are declared useable only for a limited period of time. This demonetization aimed to sort out the debt ridden and inflated economy of Nigeria but was a mere failure.

3.6 Pakistan

The government of Pakistan which earlier demonetized the 5 and 500 denomination notes, has now decided to withdraw all its old design currency notes. With effect from 1st of December 2016, all the currency notes irrespective of their denominations ceases to be a legal tender. The Government planned to bring new design currency notes with high security features. However, the time period of almost one and half years have been given to the citizens to exchange their old noted.

DEMONETIZATION IN INDIA

Demonetization is not happening first time in India. Earlier in 1946, the 1000 and 10,000 denominations notes were demonetised in order to eradicate unaccounted money. The notes with the denomination of 1000, 5000 and 10,000 were re-introduced in 1954 and once again they were demonetised on January 1978. After around 36 years the demonetization was done in 2016. There are several unorganised sectors in India which are completely based on cash economy. “In a historical move that will add record strength in the fight against corruption, black money, money laundering, terrorism and financing of terrorists as well as counterfeit notes, the Government of India has decided that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The Government has accepted the recommendations of the RBI to issue Two thousand rupee notes and new notes of Five hundred rupees will also be placed in circulation.” – Prime Minister, Mr.Modi on implementing demonetization on 8th November 2016. The following table shows the volume and value of currency notes in India

Table 1: Showing Volume and Value of Currency Notes

Volume of Currency Notes			Value of Currency Notes		
Denomination	Volume in Crore Pieces	% of all Currency Notes	Denomination	Value of Rupees in Crore	% of Currency Value
2 and 5	1,162.6	12.88 %	2 and 5	4,500	0.27 %
10	3,201.5	35.47 %	10	32,000	1.95 %
20	492.4	5.45 %	20	9,800	0.60 %
50	389.0	4.31 %	50	19,400	1.18 %
100	1,577.8	17.48 %	100	1,57,800	9.61 %
500	1,570.7	17.40 %	500	7,85,400	47.85 %
1000	632.6	7.01 %	1000	6,32,600	38.54 %
Total	9,026.6	100 %	Total	16,41,500	100 %

Source: *Business line*, 17.11.2016.

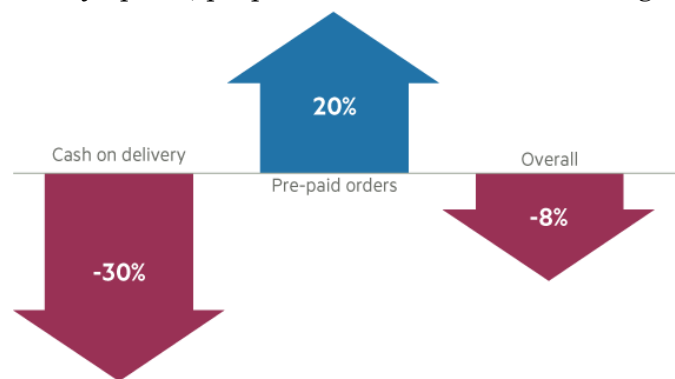
The value of currency withdrawn under demonetization accounts for almost 86 per cent. The coverage of this demonetization is much wider than the previous demonetization attempts. The trouble in the economy caused by this demonetization could both be temporary and permanent. Without the availability of liquid cash in hand, the households and retail sectors are widely affected to carry out their day to day transactions like buying commodities, eatables etc. The permanent impact will be on sectors such as real estate where the transactions are largely done through cash. But on the long run, there will be a useful change.

Apart from the operational challenges, there is a behavioural change expected among people to use the e-transactions options in India for making and receiving payments. This kind of transition requires two changes in behaviour: one, agents must move from

tangible means to forms which are less tangible or not tangible, and second, they must learn to believe on technologically advanced tools. The latter requires agents to be educated to the extent of comprehending the content of transactions. If this transition is managed properly at any cost, agents might be tempted to move to non-official cash substitutes.

The demonetization hits the retailing sector of India, though there is increase in sales by cards it is lesser than the fall in cash sales. Post demonetization there is 20 per cent increase in prepaid orders whereas the cash on delivery sales dropped by 30 per cent which eventually brought the overall fall in retailing by eight per cent.

Figure 1 showing the demonetization hit on e-commerce retailers in percentage of change in Cash on Delivery option, prepaid orders and overall change



Source: *Sanjay Sethu comments at industry forum*

In India, currency to GDP ratio is very much higher. There will be a distinct gain if the demonetisation forces the society to move to digital transactions. Millions of bank accounts have been opened under Jan Dhan Yojana and remain dormant, this can be sorted out and made active. The Non-banking finance companies (NBFCs) whose main business is to lend loan to small traders and local communities face difficulties in collecting loan dues due to demonetization. Since a large part of the repayment of loans they get are in cash the demonetization hit them hard.

DEMONETIZATION AND CASHLESS PAYMENT SYSTEM

The mobile wallets and digital payment happen to be the clear winner since demonetization. Paytm's traffic had increased by 435% and its downloads by 200%. Paytm is India's leading mobile wallet which allows users to make transactions "at 850,000 places across 1,200 Indian cities, including mom and pop shops, branded retail outlets, and petrol pumps. The paytm calling the Prime Minister decision on demonetization as a firm stand and advertised on the newspaper like: "boldest decision in the financial history of independent India". The troubles caused by demonetization paved way for plastic money and cashless transactions at a larger scale. Altogether the online transactions in India gone up by 250 per cent post demonetization. The recent acceptance of e-transactions by people gave scope for e-banking in our country. There is a tremendous increase in mobile banking and Immediate Payment System (IMPS) usage in India post demonetization.

According to India-spend analysis of RBI, the mobile banking transaction had grown by 175 per cent and the amount transacted had grown up by 369 per cent in the past one year. There is a 3 times increase in in Rupay transactions on point of sale to 10 lakhs a day, which is three times more than the normal transaction count. Post demonetization, the card

transactions in India boosted up by 133 per cent. The 120 crores worth transactions were witnessed by seven million transactions daily in paytm and 15 lakh people of India started using cards (mostly debit cards). The growth of usage of debit cards doubled after demonetization.

The government of India wants its people to cashless but it has its own pros and cons. Earlier, the online transactions were done only through debit and credit cards or through net banking. These options always had the issues of security and were not user-friendly. After the smart phone revolution, there is an explosion in digital payment options. The Best five cashless payment options in India are as follows:

- 1) **E Wallets** – E-wallets became very much popular nowadays. These e wallets make use of phone number or the QR code and the transactions will be done in matter of minutes.
- 2) **UPI** – Unified Payments Interface is another great way for cashless transactions... Through UPI we can transfer the amount very easily all that we need are two important things, Smartphone and Bank account. The recent app developed by National payment corporation of India, based on UPI, is BHIM.
- 3) **Plastic Money** – The Debit and Credit cards which are used for transactions in ATM and in Point of Sales are known as the Plastic money. This plastic money reduces the security issues of carrying the liquid cash.
- 4) **Net Banking** – Almost all banks provide the Net Banking facility to its customers. All that the customers need to do is to enable the e-banking facility for their bank account to go cashless. By this most convenient way, the customers can do all their transactions without visiting the branch. We can make payment, transfer and receive amount by ourselves through this e-banking facility.
- 5) **Aadhaar Card** – By linking the Aadhaar card to our bank account we can make use of Aadhaar card enabled payment system. After linking our Aadhaar card to our bank account, we can do our transactions by means of our finger prints.

ADVANTAGES OF CASH LESS TRANSACTIONS

The cashless transactions provide benefit in long run and it changes the deep rooted behaviour among the people.

- 1) **Cost effective to Banks:** If a transaction is done manually at the branch of the bank it costs Rs.40 to 45 but if the same transaction is done through online it costs roughly Rs.7 to 8. This reduces the cost of operation for the banks and also makes it convenient for both banker and the customer
- 2) **Low time Consumption:** Apparently the cashless transactions reduce the time consumption for the customers and also it minimizes the count of customer complaints. The customers, with the help of various options for cashless transactions, transfer or receive the amount in matter of minutes and saves the time of visiting and carrying out the transactions in the bank branch.
- 3) **Safe and Secure:** Cashless transactions provide high end security by means of availing the facility of fingerprints and One Time Password (OTP) for every transaction.

- 4) **Up-gradation of technology:** The shift from the conventional banking to cashless transactions brings technological advancement. The banks increase their ATMs, PoS machines count and various other features in the e-banking domain periodically.
- 5) **Control of Black Money and check for Anti money laundry:** There is a traceability feature in e banking unlike the cash transaction so it is easy to check the anti-money laundry and black money circulation in the country. It reduces many financial scams in our country and enhances the proper economic growth.

CONCLUSION

“When you expect an honest Government with no corruption and malpractices, you also have to be honest. Honesty is not one-way road” – Prime Minister Shri Narendra Modi. Demonetization is a remedial measure for the alleviation of unaccounted money and counterfeit notes. Demonetization is always followed by remonetisation, because there is no other go. Obviously the demonetisation has a very strong and significant impact on the cashless transactions in India. In fact, it brought a new phase in how the transactions are basically done in a economy which is majorly cash based.

The growth of the cashless transaction system is reaching new heights. People tend to move to cashless transactions. It is right to say that the cashless system is not only a requirement but also a need for the society. But on the other hand, the risk of cyber-crime is very much higher as almost all the cashless transactions are done over internet. So proper and complete awareness must be made to the people to keep their debit and credit cards safe and to use the internet banking and the digital wallet in a most secure way. In order to punish the cyber criminals, the properly structured cyber police force with high end forensic labs and technology must be created.

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